

**REPORT TO THE  
JOINT LEGISLATIVE AUDIT  
AND REVIEW COMMISSION**

**FOR THE QUARTER  
APRIL 1, 2005 TO JUNE 30, 2005**



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# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts**

**P.O. Box 1295**

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July 15, 2004

The Honorable Lacey E. Putney, Chairman  
and  
Members, Joint Legislative Audit and Review Commission  
General Assembly Building  
Capitol Square  
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period April 1, 2005, through June 30, 2005.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety or you can find all reports listed in this document at our website <http://www.apa.state.va.us/reports.htm>. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski  
Auditor of Public Accounts

WJK:whb

# **EXECUTIVE SUMMARY**

## **COMMONWEALTH OF VIRGINIA SELF INSURANCE REVIEW**

For the fiscal year ended June 30, 2004

The Commonwealth of Virginia operates a variety of self-insurance programs to cover risk loss exposures such as health, workers compensation, general liability, property and casualty, disability and life. The Departments of Accounts, Corrections, Human Resource Management, Juvenile Justice, Treasury, and the Virginia Retirement System administer these programs. This report provides general information about the programs, their administration, and funding. During the course of this study we identified a number of issues that the Commonwealth should consider to improve their operations.

### Line of Duty

Due to new upcoming accounting standards that may require an actuarial valuation of the Line of Duty program, the Commonwealth should consider moving the entire program to another agency.

### Monitoring Third Party Administrators

The Department of Human Resource Management, Office of Health Benefits requires the actuary review Anthem's third party administration services; however, the most recent valuation covers the period April 25 through June 15, 2001. Monitoring the operations of a third party administrator is an essential best practice that allows program managers to ensure internal controls over program transactions are effective. Program managers can achieve this control by requiring the third party administrators to have an independent review of operations performed by their independent auditor. The Office of Health Benefits should ensure a consistent and timely review of third party claim administration for health care claims is performed and the results reviewed by program management.

### Funding Policies

Events such as premium holidays, premium reductions, and transfers to the General Fund create long-term solvency issues for the Commonwealth's self-insurance programs. These events coupled with the programs' inability to avoid the rising costs of services and administration may lead to decreased benefits and increased premiums. Further analysis of the Health Insurance Fund and Workers Compensation Fund revealed that the funds did not meet standard ratio tests for liquidity. In addition, the funds have increasing negative net assets, fund balances that cannot cover current claims payable. As a result, the Commonwealth should develop policies that protect the funding and any future reserves of self-insurance programs to minimize the severity of cost increases and benefit decreases. The policies should also include setting adequate premium revenues, monitoring and managing liquidity levels, and funding progress.

## **DEPARTMENT OF CORRECTIONS AND VIRGINIA PAROLE BOARD**

For the fiscal year ended June 30, 2004

### Strengthen Payroll Processing Procedures

Corrections needs to address several internal control weaknesses in their payroll processing procedures. Our review of the payroll process found a lack of documented policies and procedures; a lack of effective pre-certification procedures; and facilities and field units not submitting payroll changes timely.

Corrections employs over 11,000 individuals with annual payroll expenses over \$500 million. Corrections has a central office, as well as three regional offices, 27 major correctional centers, four work

centers, two reception and diagnostic centers, one treatment center and 13 field units. Most of the employees work in various corrections centers across the state.

Corrections' payroll function is primarily administered through a central payroll unit in the Department's Central Office. Facilities and field units send their payroll changes into the central payroll unit, where the unit enters the changes into Corrections payroll system, CIPPS. The central payroll unit has 17 employees, most of whom are payroll technicians responsible for entering payroll changes into CIPPS each pay period. Our review of Corrections' payroll processing identified the following internal control weaknesses.

#### *Lack of Documented Policies and Procedures*

Corrections has no documented policies and procedures over payroll processing, either for the central payroll unit or for facilities and field units. Some facilities have developed their own procedures that address post-certification procedures they perform; however, no one has reviewed or approved these procedures. As a result, there is no consistency among procedures performed by facilities, nor is there coordination with procedures performed by the central payroll unit.

#### *Lack of Effective Pre-Certification Reviews*

The Commonwealth Accounting Policies and Procedures (CAPP) manual stresses the importance of the pre-certification review, a process to review and determine if payroll changes are appropriate. The only pre-certification procedure performed is when the payroll technicians review the payroll changes before they enter the change into the payroll system. This review consists of the same person entering the information, and therefore does not provide either a separation of duties or a supervisory review of the transaction. In addition, the payroll technicians do not document their review, thus there is no evidence to support the review.

#### *Facilities and Field Units Not Submitting Payroll Changes Timely*

The central payroll unit has a schedule each pay period setting deadlines for when they should receive payroll information from facilities and field units. The central payroll unit often receives late information from the facilities and field units, which creates a very heavy workload for the central payroll unit at the end of a pay period. This workload situation could compromise the integrity of the information and the ability to perform reviews.

We recommend Corrections take the following specific actions to address these internal control weaknesses:

- Corrections should develop policies and procedures over payroll processing. Payroll is a significant expense of the Department, and documented policies and procedures would strengthen their internal controls. The Commonwealth Accounting Policies and Procedure (CAPP) manual highlights key controls in payroll processing, but recommends agencies develop their own policies and procedures tailored to their organization. In addition, formal policies and procedures would be a training tool for new employees in the payroll unit. There is a high level of employee turnover in this unit, and written policies and procedures would help new employees to understand the procedures.

- Corrections should improve their pre-certification procedures. Ideally, someone should review payroll changes before entering into CIPPS and this individual should be someone other than the individual entering the data. Additionally, Corrections should require the individual document this review. The CAPP manual does allow agencies to use statistically valid random sampling techniques for pre-certification reviews. Corrections should consider this type of a procedure given the number of employees and volume of changes they are processing each payroll period.

Additionally, there are two other issues that Corrections' management and the central payroll unit should consider when evaluating the effectiveness of payroll operations. First, Corrections' payroll unit needs to continue to explore opportunities to use technology to enhance their operations. It is our understanding that the payroll unit is evaluating how they could use downloaded payroll data to improve the process. We encourage them to continue to look into this as it is likely the use of better technology and downloaded information could provide opportunities to more efficiently perform some functions. Second, Corrections management should examine the staffing level of the central payroll unit to ensure it is adequate to meet their responsibilities.

## **DEPARTMENT OF HEALTH PROFESSIONS**

For the fiscal year ended June 30, 2004

### Report All Available Resources

The Department does not report all the cash it has available to cover expenses to the health regulatory boards. At June 30, 2004, there was a \$1.377 million difference between the amount of cash the Department reported to the individual boards and the Department's total cash balance in their operating fund in CARS. Paragraph 5 of Section 54.1-2400.5 of the Code of Virginia requires the health regulatory boards "To levy and collect fees...that are sufficient to cover all expenses for...the Department of Health Professions, the Board of Health Professions and the health regulatory boards." Without knowing the full amount of cash available to cover expenses of the Department and/or the regulatory boards, there is a risk that a regulatory board could levy and collect fees that far exceed the Department's expenses.

### Develop Formal Policies

As of June 30, 2004 the Department had \$1.3 million of unallocated cash balances that it lacked formal policies and procedures for dispensing. We recommend that the Department develop and document formal policies for managing all resources not allocated to one of the health regulatory boards. Formal policies can insure that the Department is consistently handling these funds over time, meeting all compliance requirements, and allocating the health regulatory boards their funds in a timely manner.

## **DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION, AND SUBSTANCE ABUSE SERVICES**

For the fiscal year ended June 30, 2004

### Change Budgeting Process

Although the Department operates within its appropriation, expenses exceed revenues at most of the mental health facilities because there are limits on the amount of Medicaid and Medicare revenue they can generate since their patients, who are mentally ill, have a lower percentage of eligibility as compared to the patients serviced by mental retardation facilities.

Anticipating that the mental health facilities will not generate sufficient revenues to cover expenses, the Central Office monitors the revenues of each facility. When it is apparent that the mental retardation facility will generate sufficient revenues to cover expenses, the Central Office transfers the excess collections to cover the shortfall in the mental health facilities.

While this practice allows the Department to operate its facilities within its overall appropriation, this practice masks from policymakers the actual funding source of facility operations and further distorts the dependence that mental health facilities have on the mental retardation units generating a positive cash flow. This budgetary method may have long-term critical consequences as the federal government enacts changes to the Medicaid reimbursement policies. Additionally, this practice also tends to show a more even distribution of General Fund appropriations among all facilities, when in reality the transfer of special fund revenue indicates that the mental retardation units could operate more independently and the mental health facilities should receive this shift in General fund appropriations.

### Dependence on Medicaid Reimbursements

Constraints on Medicaid growth both at the federal and state level will have a direct effect on the Department's funding model or operations. As a result, the Department will need to address its long-term funding model or operations. Restriction on Medicaid billing growth without additional funding from other sources will lead the Department to either having to reduce or eliminate services.

### Sharing Pharmacy Costs

The Department through Hiram Davis Medical Center provides prescriptions to clients of the CSBs. However, while the CSBs should help Hiram Davis attempt to bill and recover some of these costs, the current process does not facilitate the recovery of these costs.

## **DEPARTMENT OF VETERANS SERVICES AND THE VETERANS SERVICES FOUNDATION**

For the fiscal year ended June 30, 2004

Generally, we found that Veterans Services' system of internal controls did not achieve the objectives for such a system. Although some of the problems arose from not understanding the Commonwealth's process, we are of the opinion that many of the managers and supervisors do not fully understand their responsibilities and what they contribute to the organization. Finally, the managers and supervisors do not appear to understand how to use these tools to improve internal controls and the knowledge of the staff.



## Develop and Enforce Internal Controls over Financial Transactions

### *Background*

The Department of Veterans Services is the result of the merger of several functions of government previously performed by the Department of Veterans' Affairs and the Veterans Care Center. The former Department of Veterans' Affairs had the most expertise in dealing with the Commonwealth's accounting, payroll, personnel, procurement, and other administrative system, policies and procedures. However, Veterans' Affairs was a small agency with limited support staff. The creation of Veterans Services and the assumption of all the employees and responsibilities of operating the new agency, especially the Veterans Care Center, has fully taxed the knowledge, experience, and abilities of the original support staff.

As part of the merger, Veterans Services assumed the operation of the Commonwealth's Veterans Care Center, which is a nursing home facility, and as such bills insurance companies, Medicare, and Medicaid for services. Prior to the merger, a contractor operated the Veterans Care Center; therefore, there was little or no need to deal with the Commonwealth's processes. There was limited time to plan for the merger and the staff, although knowledgeable, was not able to properly support the core administrative staff from Veterans' Affairs.

### *Fundamental Internal Controls*

Inherent in any system of internal controls is a dependence on supervisory review and timely and accurate reconciliations. Supervisors, who question and understand the process they oversee, are any organization's first line of defense in maintaining accountability regardless of system or process.

Reconciliations and supervisory reviews provide both a check on how well staff are doing their jobs, but they also provide assurance that management is getting timely and reliable information to make decisions. Without timely and accurate reconciliations coupled with their use to correct information, management faces the prospect of having inaccurate and unreliable information.

Reconciliations and supervisory reviews provide two additional controls fundamental to any well-running system of internal controls and accountability. Both of these functions provide checks against outside sources as to the processing of financial transactions by providing information on the timely receipt, payment, and accuracy of transactions processed by vendors, customers and others, such as the bank. Finally, these two processes also provide information on the performance of the staff processing the transactions. Errors, miscoding, duplicate transactions, and untimely processing can all indicate whether whole sections or individuals either do not understand their duties and require additional training or are just failing to perform their job.

Reconciliations and supervisory reviews are also an organization's first line of defense against fraud and other errors. All of these factors contribute to the need to do timely, accurate, and thorough supervisory reviews and reconciliations.

Generally, we found that the supervisory reviews and reconciliations at Veterans Services did not achieve the objectives above and the lack of them contributed to many of the following problems. Although some of the problems arose from not understanding the Commonwealth's process, we are of the opinion that many of the managers and supervisors do not fully understand their responsibilities and what they contribute to the organization. Finally, the managers and supervisors do not appear to understand how to use these tools to improve internal controls and the knowledge of the staff.

### *Develop Adequate Administrative Resources to Operate the Agency*

Veterans Services was formed by merging several entities with small administrative staffs. In the case of the Veterans Care Center, except for nursing home billings, the administrative staff primarily processed transactions and relied on the contractor's corporate staff to provide administrative guidance. Generally, the Veterans Services' staff has the experience and with some training, the knowledge to effectively process financial transactions. However, there is clearly an absence of experienced, knowledgeable individuals to provide the on-going and daily oversight of the accounting and administrative function.

The size and scope of current operations and the expected expansion of the agency with additional veterans care centers makes it important that the agency establish proficient administrative resources. Part of this development should include having personnel that can not only supervise and manage their sections, but also have the resources to oversee the entire operations. Whether this resource exists centrally, at each facility, or comes from a contractor, Veterans Services' management must address this need.

#### *Other Matters*

This report addressed several other issues, below is a listing of these findings.

*Improve Payment Documentation and Ensure Compliance with Policies*

*Improve Small Purchase Charge Card Documentation and Ensure Compliance with Policies*

*Improve Internal Controls over the Fund Receipting and Posting Process*

*Establish Policies for Allowance for Doubtful Accounts and Write-offs*

#### *Conclusion*

All of these deficiencies collectively represent a material weakness in the agency's internal control structure. A material internal control weakness means that the possibility exists that a fraud or other error could occur and go undetected. Although, we have not found a fraud or other material error, the lack of internal control hampers the discovery during an audit.

Effective internal control over financial transactions is vital to the proper recording and preparation of reliable financial information. An effective internal control process is comprehensive and involves people at all levels throughout an agency, including those who keep accounting records, prepare and disseminate policies, and monitor systems, as well as people in a variety of operating roles.

The responsibility for the establishment and maintenance of internal control in an agency resides with management. Such controls must take into consideration the requirements promulgated by central agencies in the form of policies and procedures, as well as adherence to the controls built into central, statewide systems. Agencies must develop a formal program to evaluate the operating environment and ensure they maintain adequate internal controls over financial assets.

Although the individuals at Veterans Services have received some training in how to use the Commonwealth's central administrative systems, policies, and procedures, these employees have limited knowledge of state rules and regulations. Further, consider that the Commonwealth is planning the opening of additional veterans care centers.

We recommend that the Secretary of Administration work with the Commissioner of Veterans Services to consider alternatives to current and future operations, which will provide the necessary controls to operate these facilities. Alternatives include setting minimum administrative staff levels for each facility and

the agency; consolidating some functions, either in one central location or have some of the functions such as payroll and procurement functions performed by a larger agency; or employing an outside contractor to do some or all of these functions. Considering the expected growth of the agency, the decisions need to occur quickly.

## **REVIEW OF THE COMMONWEALTH'S HOMELAND SECURITY FUNDING**

Covering the period fiscal years 1999 to 2004

This report summarizes the primary sources of funding the Commonwealth receives from the federal government for homeland security and bio-terrorism. It is important to properly categorize those activities that are within the purview of the U.S. Department of Homeland Security versus the broader array of homeland security activities that cross into many areas of government and the private sector. Throughout this report, we will use the term 'homeland security' to denote the general issue; and the 'U.S. Department of Homeland Security' to denote its programs and activities.

The Commonwealth receives funding from various federal agencies, which consists of a combination of new and existing programs. We reviewed the state agencies that received significant amounts of federal homeland security funding through the U.S. Departments of Homeland Security and Health and Human Services – the two largest providers to states and local entities. We concentrated our efforts on the Department of Emergency Management, Virginia Department of Health, Virginia State Police, and Virginia Port Authority who directly receive the majority of these funds. The scope of this report does not include funds that went to localities from the federal level as direct grants, though this information is included in the appendices. Joint Legislative Audit and Review Commission staff are currently examining the use of homeland security funding.

In performing our review, we found that the Commonwealth expects federal funding for most homeland security programs to decrease over the next several years. This may affect the Commonwealth in two areas. While current grants allow recipients and subrecipients to use a certain percentage for administrative costs, the expected decrease in funding may prevent some state and local entities from hiring additional staff to administer and monitor these grants. Consequently, both the Commonwealth and localities have limited resources to perform these duties and must make the decision to either accept additional risk or hire additional staff, using state and local funds if adequate federal funds are not available.

The anticipated decrease in federal funding will also affect the replenishment and maintenance of equipment and training on both state and local levels. The Commonwealth and local entities have purchased a significant amount of equipment and supplies and developed programs with federal homeland security and bio-terrorism funds. State and local entities have purchased protective, communication, and search and rescue equipment, such as gas masks, drugs, batteries, and medical supplies. Over time, much of the equipment and supplies will require maintenance or replacement. With the decrease in federal funding, the Commonwealth and localities will need to decide whether to provide funds towards this effort or choose not to maintain and replenish certain equipment or supplies. Not maintaining equipment and supplies purchased with homeland security funds could negatively impact the Commonwealth's ability to respond to terrorist events. Additionally, not replenishing expended materials and supplies for these programs timely would negate the effects of resources already spent on homeland security efforts.

## SECRETARY OF NATURAL RESOURCES AGENCIES

For the fiscal year ended June 30, 2004

This report incorporates all of the following agencies:

Chesapeake Bay Local Assistance Department	Department of Historic Resources
Chippokes Plantation Farm Foundation	Marine Resources Commission
Department of Conservation and Recreation	Virginia Land Conservation Foundation
Department of Environmental Quality	Virginia Museum of Natural History
Department of Game and Inland Fisheries	Virginia Outdoors Foundation

On May 24, 2005, the State Internal Auditor presented the findings of his investigation to the Board of the Department of Game and Inland Fisheries. Accompanying this report was a corrective action plan developed by the Secretary of Natural Resources and with some exceptions related to the Secretary's recommendation to the Governor adopted and endorsed by the Board.

While the State Internal Auditor's report discusses some issues of Board governance recommendations in this report included a more extensive discussion of this issue. We did not include in this report any findings or recommendations which would duplicate the State Internal Auditor's report, except for the general Board governance issues. The State Internal Auditor's report includes extensive recommendations concerning internal controls and other matters and we encourage the Board and the Acting Executive Director to implement all of these recommendations.

Included in the Secretary of Natural Resources response to the report were recommendations to the Governor on the structure of Game and the Board. The Board did not adopt these recommendations, but agreed to consider and discuss them. Included in the report is a discussion of Games' organization and the relation of the Board, Secretary of Natural Resources and the Executive Director.

### DEPARTMENT OF GAME AND INLAND FISHERIES

The Department of Game and Inland Fisheries (Game) manages Virginia's wildlife and inland fish to maintain optimum populations of all species to serve the needs of the Commonwealth; provides opportunity for all to enjoy wildlife, inland fish, boating and related outdoor recreations; and promotes safety for persons and property in connection with boating, hunting, and fishing. Major sources of revenue include hunting, fishing, and motorboat licensing; boat sales and use taxes; wildlife related sales taxes; and federal grants. Game's maximum employment level is 466 positions.

#### Organization

##### Game and Inland Fisheries Board

A supervisory board, appointed by the Governor to four-year terms, governs Game. The Board has 11 members, one from each congressional district. As a supervisory board, members have overall responsibility for Game's operations and also appoint Game's executive director, who serves as the principal administrative officer for Game. The Board elects one of its members as its chairman, who presides at all meetings of the Board, but who has no additional powers or authority other than those given to the other board members.

### Game and Inland Fisheries Executive Director

The Board appoints Game's Director to act as the principal administrative officer and report directly to the Board. The Code of Virginia specifies that the Director is responsible for the following:

- enforce all laws for the protection, propagation, and preservation of game birds and game animals of the Commonwealth and all fish in the inland waters;
- initiate the prosecution of all persons who violate such laws, and seize and confiscate wild birds, wild animals, and fish that have been illegally killed, caught, transported, or shipped;
- employ persons necessary for the administrative requirements of the Board;
- conduct and establish cooperative fish and wildlife projects with the federal government;
- enter into all contracts and agreements necessary or incidental to the performance of his duties and the execution of his powers; and
- consult with, and keep informed, wildlife and boating constituent organizations so as to benefit Virginia's wildlife and natural resources and accomplish Game's mission.

### Secretary of Natural Resources

The Secretary of Natural Resources, appointed by the Governor, has responsibility for Game, among other natural resource agencies. The agencies assigned to the Secretary are required under the Code of Virginia to:

- exercise their respective powers and duties in accordance with the general policy established by the Governor or by the Secretary acting on behalf of the Governor;
- provide such assistance to the Governor or the Secretary as may be required; and
- forward all reports to the Governor through the Secretary.

The Secretary is granted administrative authority within his agencies by the Code of Virginia to do the following:

- resolve administrative, jurisdictional, operational, program, or policy conflicts between agencies or officials assigned;
- direct the formulation of a comprehensive program budget for the functional area, encompassing the services of agencies assigned for consideration by the Governor;
- hold agency heads accountable for their administrative, fiscal and program actions in the conduct of the respective powers and duties of the agencies;

- direct the development of goals, objectives, policies, and plans that are necessary to the effective and efficient operation of government;
- sign documents on behalf of the Governor that originate with agencies assigned to the Secretary; and
- employ such personnel and to contract for such consulting services as may be required to perform the powers and duties conferred upon the Secretary by law or executive order.

### Internal Control Findings and Recommendations

Game has been under review by the State Internal Auditor and the media due to the decisions of key administrative personnel related to travel, the acquisition of goods and services, and other personnel matters. While no organization can operate without criticism, much of the current controversy arises from a lack of uniform decision-making that results from the failure to develop and follow written policies and procedures. Also, it appears that the Board has not clearly defined the scope of their responsibilities in the active management of Game.

Internal controls are review checks on the processing of transactions against documented policies and procedures. Our audit found that in most cases Game's system of internal control has appropriate checks to review the processing of transactions. However, overall there is a significant lack of documented policies and procedures and their applicability to all levels of the organization, including senior management and the Board.

The sections below recommend processes that the Board and Game should follow to improve their operations and focus primarily on the development of written policies and procedures.

### Clarify Duties and Responsibilities of the Board, Game Director, and Secretary for Following State Guidelines

Game's organizational structure may result in confusion since both the Board and Secretary have similar duties and responsibilities relative to Game. Questions arise such as who is responsible to the Governor for the operations of Game and who defines the policies they must follow. Since the Governor appoints both the Board and Secretary and both answer to him, they must agree on the division of their responsibilities and duties and determine how they can work together to ensure Game fulfills its mission and goals.

We reviewed the Board's governing policies. The Board adopted the majority of their policies in 1990 with two added in 1993 and one in 1995, and we found these policies generally vague and without clear definition of specific roles and responsibilities. Also, these policies did not address the Board's working relationship with the Secretary and how the Board would comply with responsibilities and duties for obtaining approvals or coordinating activities with and through the Secretary.

Underlying the Board's policies appears to be the assumption that staff will keep the Board informed of major state statutes, rules, and policies governing the conduct of state business. We believe that in addition to clarifying the roles and responsibilities, the Board should periodically receive an update on whether its policies comply with state statutes, rules, and policies and how they affect operations.

The Secretary of Natural Resources' response to the State Internal Auditor's report recommended that the Governor consider having legislation introduced to change the Board from supervisory to a policy board, therefore removing their hiring of the Executive Director and financial and daily operating responsibilities. In addition, the Secretary further recommend having the Governor select and appoint the Executive Director.

While we concur that action is necessary to clarify and delineate duties and responsibilities, we believe that there are several alternatives including the one recommended by the Secretary. In addition to the Secretary's recommendation, the following represent some of the alternatives.

- Make the Secretary of Natural Resources and the State Comptroller members of the Board, thereby providing increased supervision and insight into typical internal controls and state procedures;
- Change the Secretary's duties and responsibilities for Game to allow the Secretary to review and oversee the Board's actions similar to his oversight of other agency heads; and
- Clearly define the Board's consequences for failing to properly exercise control over the Executive Director, including in appropriate circumstances, the Secretary's ability to remove or suspend the Executive Director.

There is clearly a need to define the Board, Secretary and Executive Director's duties and responsibilities. Not addressing this issue will continue to result in periodic oversight problems. Any of these alternatives, including the Secretary's recommendation, will require statutory change in the Board duties and responsibilities. Both the Governor and General Assembly will need to address this relationship if they are going to improve Game's operations.

#### Define the Role of the Chairman

Under the Board's statutory authority, the Chairman has the same duties and responsibilities as any other board member, except to preside over meetings. However, our audit found several instances where the Chairman provided formal instructions to the Game Director, but there is no evidence that other Board members provided consultation or agreement with the instructions. These instances occurred under more than one chairman's leadership and it appears that both the Director and the individual appointed as Chairman assume this is a typical mode of operation.

While on many corporate and other supervisory boards, the Chairman may have additional duties and responsibilities; this is not the case in this circumstance. Since neither the Code of Virginia, nor the Board's governing policies sets out additional responsibilities and duties for the Chairman, all Board members should approve formal instructions to the Director, unless the Board agrees to a level of delegation. If the Board wishes to delegate certain responsibilities to the Chairman to act on their behalf relative to specific matters, the Board should describe and adopt this guidance as part of the Board's governing policies. Collectively, the Board should periodically review this delegation and relationship to ensure it stays within the Board's statutory mandate.

#### Establish Official Duty Guidance

The Board evaluates the Game Director's performance annually in five broad categories: Leadership; Government and Community Relations; Human Resource Management; Management Systems, Processes and Practices; and Relations with the Board. However, the categories provide no description of the Board's

expectations. In addition, as mentioned in the section above, the Chairman has periodically issued formal instructions to the Game Director, but with no evidence that other Board members provided input.

While the evaluation is a personnel matter, all Board members should have a clear understanding of the Game Director's performance expectations. We recommend that the Board collectively develop and communicate clear performance expectations to the Director and any future formal instructions come from the collective Board or provided from a member and ratified at subsequent Board meetings.

#### Perform a top-down review of existing policies and procedures

Game lacks adequate policies and procedures governing its daily operations and decision-making, causing Game to address problems in a reactive stance. Instead, we believe Game and the Board should be proactive by identifying areas where policies and procedures do not address the standards and mode of operations that Game needs and the Board expects.

Game and the Board should perform a top-down review of existing policies and procedures to determine where they do not exist and those that are outdated or invalid. This review should include the Board's governing rules to ensure they clarify their responsibilities as a supervisory board and spell out whether the Chairman has any additional powers over regular members except to open and close Board meetings.

Game has had a reluctance to adopt and follow policies and procedures, which has contributed to criticism of management's operation of Game. This office has, over time, recommended adoption of policies and procedures and we again believe the Board should make this a management priority for all divisions, activities, processes, and procedures.

Without policies and procedures, Game management and Board members use their judgment when deciding what course of action is appropriate and whether their solution is in line with the Game's goals and mission. Often, this places Game and the Board in the position to later justify actions rather than citing public documents that demonstrate their decision was based on Game's established standards.

#### Establish Criteria for Official Duties

Many of Game's staff and management are actively involved in activities that the Game oversees, controls, or provides services to, both in their official capacity, as well as on a personal level. In some cases, staff and management are providing services to organizations and groups and at the same time are members of those organizations and groups. While constituent outreach is an important part of Game's goals and mission, this overlap of official duties and responsibilities with membership participation creates confusion and misunderstanding as to the staff and management's participation in activities.

As an example, Game has responsibility for providing instruction in hunting and weapon safety. Many of staff that provide this training also have an active personal interest in hunting and weapon's proficiency. As they develop these skills and participate in various group or organization events, it may become difficult to differentiate whether the staff are there as participants or official representatives of Game. Without some guidance in this area, Game staff and management will continue to receive criticism for purchases, travel, and participation in certain activities since it is unclear why an individual may be participating in an event.



## **VIRGINIA STATE UNIVERSITY**

For the fiscal year ended June 30, 2004

Over the last year, the University has experienced significant employee turnover in several key positions including but not limited to the Vice President for Administration and Finance, Controller, Budget Director, Manager of General Accounting, Cash and Investments Manager, Director of Purchasing, and Payroll Manager. The University has filled some of these positions, but many positions have remained vacant and at times the University had to rely on temporary employees and support from Commonwealth's Central Service agencies to perform functions necessary for day-to-day operations. As a result of this turnover, the University has many new staff in these positions or has had to increase staff workloads due to the positions that remained unfilled. We believe that the vacancies have resulted in the findings documented in the report and several other minor issues that we have not included in this report.

Below are the areas requiring improvement.

*Improve Contract Administration*

*Document Policies and Procedures*

The University has some of its operating policies and procedures documented; however, they have not documented all of the day-to-day operating procedures, which are an important component of the University's internal control structure. The following areas require documentation.

- *Financial Reporting*
- *Human Resources and Payroll*
- *Removal of Account Access*

*Improve Reconciliation Process*

*Improve Documentation of System Changes*

*Improve User Account Management and Password Controls to Critical Systems*

## **SUMMARY OF REPORTS ISSUED**

## **SUMMARY OF REPORTS ISSUED**

The following reports on audit were released by this Office during the period \*, 2004 through \*, 2004. Those reports which included findings in the area of internal controls or compliance are indicated by an (\*) asterisk.

### **State Agencies and Institutions**

#### **Executive Departments**

##### **Administration**

Department of Business Assistance for the years ended June 30, 2003 and 2004  
Department of Employment Dispute Resolution for the three-year period ended June 30, 2004  
Department of General Services for the year ended June 30, 2004  
Department of Veterans Services and the Veterans Services Foundation for the period July 1, 2003 through December 31, 2004\*  
Human Rights Council for the three-year period ended June 30, 2004

##### **Agriculture and Forestry**

Department of Forestry for the period January 1, 2003 through June 30, 2004

##### **Commerce and Trade**

Department of Labor and Industry for the period July 1, 2002 through June 30, 2004  
Department of Professional and Occupational Regulation for the three-year period ended June 30, 2004  
Virginia Worker's Compensation Commission for the year ended June 30, 2004\*

##### **Education**

The Library of Virginia for the period January 1, 2003 through June 30, 2004

##### **Colleges and Universities**

College of William and Mary in Virginia, including the Virginia Institute of Marine Science and Richard Bland College, for the year ended June 30, 2004  
College of William and Mary in Virginia Intercollegiate Athletic Programs for the year ended June 30, 2004  
George Mason University for the year ended June 30, 2004\*  
George Mason University Intercollegiate Athletic Programs for the year ended June 30, 2004  
James Madison University for the year ended June 30, 2004  
James Madison University Intercollegiate Athletic Programs for the year ended June 30, 2004  
Mary Washington College for the year ended June 30, 2004

Norfolk State University for the year ended June 30, 2004\*  
Norfolk State University Intercollegiate Athletic Programs for the year ended June 30, 2004  
Radford University for the year ended June 30, 2004  
Radford University Intercollegiate Athletic Programs for the year ended June 30, 2004  
Virginia Community College System for the year ended June 30, 2004\*  
Virginia Military Institute for the year ended June 30, 2004  
Virginia Military Institute Intercollegiate Athletic Programs for the year ended June 30, 2004  
Virginia State University for the fiscal year ended June 30, 2004\*  
Virginia State University Intercollegiate Athletic Programs for the fiscal year ended June 30, 2004

### **Health and Human Resources**

Agencies Serving Virginians with Disabilities for the year ended June 30, 2004\*  
Commonwealth Health Research Board for the period July 1, 2002 through June 30, 2004  
Department of Health Professions for the three-year period ended June 30, 2004\*  
Department of Mental Health, Mental Retardation, and Substance Abuse Services for the audit period July 1, 2003, through December 31, 2004\*  
Office of Comprehensive Services for At-Risk Youth and Families for the year ended June 30, 2004  
Virginia Office for Protection and Advocacy for the three-year period ended June 30, 2004  
Virginia Outdoors Foundation for the period July 1, 2003 through December 31, 2004\*  
Virginia Tobacco Settlement Foundation for the year ended June 30, 2004

### **Natural Resources**

Potomac River Fisheries Commission for the year ended June 30, 2004  
Rappahannock River Basin Commission for the Period July 1, 2001 through June 30, 2004  
Secretary of Natural Resources Agencies for the period July 1, 2003 through June 30, 2004\*

### **Public Safety**

Agencies of the Secretary of Public Safety for the year ended June 30, 2004\*  
Department of Corrections for the year ended June 30, 2004\*

### **Technology**

Virginia Information Technologies Agency for the period July 1, 2002, through June 30, 2004\*  
Wireless E911 Service Board for the year ended June 30, 2004

### **Special Reports**

Commonwealth of Virginia Self Insurance Review\*  
Report to the Joint Legislative Audit and Review Commission for the quarter January 1, 2005 through March 31, 2005  
Review of the Commonwealth's Homeland Security Funding dated May 2005  
Statewide Report on the Virginia District Court System, Report on Audits during the period July 1, 2003 through June 30, 2004\*

## **Clerks of the Circuit Courts**

### **Cities:**

City of Alexandria Clerk of the Circuit Court for the period April 1, 2004 through March 31, 2005  
City of Bristol Clerk of the Circuit Court for the period January 1, 2004 through March 31, 2005  
City of Hopewell Clerk of the Circuit Court of the for the period January 2004 through December 2004  
City of Danville Clerk of the Circuit Court for the period October 1, 2003 through December 31, 2004  
City of Newport News Clerk of the Circuit Court for the period April 1, 2004 through March 31, 2005  
City of Portsmouth Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004  
City of Roanoke Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004

### **Counties:**

County of Amherst Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2005  
County of Appomattox Clerk of the Circuit Court for the period October 1, 2002 through  
December 31, 2004  
County of Bland Clerk of the Circuit Court Turnover Audit for the period January 1, 2004 through  
March 31, 2005  
County of Brunswick Clerk of the Circuit Court for the period January 1, 2004 through March 31, 2005  
County of Buckingham Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2005  
County of Charlotte Clerk of the Circuit Court for the period April 1, 2004 through March 31, 2005  
County of Culpeper Clerk of the Circuit Court for the period January 1, 2004 through March 31, 2005\*  
County of Dickenson Clerk of the Circuit Court for the period January 1, 2004 through March 31, 2005  
County of Dinwiddie Clerk of the Circuit Court for the period October 1, 2003 through  
December 31, 2004\*  
County of Franklin Clerk of the Circuit Court for the period October 1, 2003 through December 31, 2004  
County of Grayson Clerk of the Circuit Court for the period October 1, 2003 through  
December 31, 2004\*  
County of Greene Clerk of the Circuit Court for the period January 1, 2003 through December 31, 2004\*  
County of Hanover Clerk of the Circuit Court of the for the period January 1, 2004 through  
December 31, 2004  
County of Henry Clerk of Circuit Court for the period January 1, 2004 through March 31, 2005  
County of Mathews Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004  
County of Mecklenburg Clerk of the Circuit Court for the period January 1, 2004 through  
March 31, 2005  
County of New Kent Clerk of the Circuit Court for the period April 1, 2004 through March 31, 2005  
County of Nottoway Clerk of the Circuit Court for the period January 1, 2004 through  
December 31, 2004  
County of Patrick Clerk of the Circuit Court for the period July 1, 2003 through March 31, 2005  
County of Prince Edward Clerk of the Circuit Court Turnover for the period October 1, 2004 through  
April 30, 2005  
County of Prince William Clerk of the Circuit Court for the period January 1, 2004 through  
December 31, 2004\*  
County of Rappahannock Clerk of the Circuit Court for the period October 1, 2002 through  
December 31, 2004  
County of Roanoke Clerk of the Circuit Court for the period October 1, 2003 through March 31, 2005  
County of Rockingham Clerk of the Circuit Court for the period January 1, 2004 through  
December 31, 2004\*  
County of Surry Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004

County of Washington Clerk of the Circuit Court for the period October 1, 2003 through  
December 31, 2004\*

County of Westmoreland Clerk of the Circuit Court for the period January 1, 2004 through  
December 31, 2004

County of Wythe Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2004

**Treasurers**

Treasurer of the County of Clarke for the period July 1, 2004 through March 11, 2005

Treasurer of the County of Greensville for the period July 1, 2004 through April 15, 2005

